



Education Credits

Probe/Action: To determine if a taxpayer qualifies for the Education Credit.

Comparison of Education Credits

American Opportunity Credit	Lifetime Learning Credit
Up to \$2,500 per eligible student	Up to \$2,000 credit per return
Available for first 4 years of post secondary education, cannot be claimed more than 4 tax years	Available for all years of post secondary education and for courses to acquire or improve job skills
Forty percent (.40) of the credit is refundable ¹ (Up to \$1,000 even if no taxes are owed)	Non refundable credit
Student must be pursuing an undergraduate degree or other recognized education credential	Student does not need to be pursuing a degree or other recognized education credential
Student must be enrolled at least half time for at least one academic period beginning during the year	Available for one or more courses
No felony drug conviction on student's record	Felony drug conviction rule does not apply
Credit is reduced if modified AGI is between \$80,000 and \$90,000 (\$160,000 and \$180,000 if married filing jointly)	Credit is reduced if modified AGI is between \$50,000 and \$61,000 (\$100,000 and \$122,000 if married filing jointly)

Who Can Claim the Credit?

- Taxpayers who paid qualified educational expenses of higher education for an eligible student.
- Taxpayers who paid the education expenses for a student enrolled at or attending an eligible educational institution. (to determine if eligible, see <http://ope.ed.gov/accreditation>)
- The eligible student is either the taxpayer, taxpayer's spouse or a dependent for whom the taxpayer can claim as a dependent on the tax return.

Note: Qualified education expenses paid by a dependent for which an exemption is claimed, or by a third party for that dependent, are considered paid by the taxpayer. If a student is **NOT** claimed as a dependent (even if eligible to be claimed), only the student can claim an education credit no matter who paid the expenses. Anyone paying the expenses (even directly to the institution) are considered to have given a gift to the student who in turn is treated as having paid the expenses.

¹ None of the credit is refundable if (1) the taxpayer claiming the credit is (a) under age 18 or (b) age 18 at the end of the year, and their earned income was less than one-half of their own support or (c) a full time student over 18 and under 24 and their earned income was less than one-half of their own support; and (2) the taxpayer has at least one living parent, and; (3) the taxpayer does not file a joint return



Education Credits (Continued)

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Who Can Claim a Dependent's Expenses?

If the taxpayer...	Then only...
Claims an exemption on the return for a dependent who is an eligible student	The taxpayer can claim the credit based on that dependent's expenses. The dependent cannot claim the credit.
Does not claim the exemption on the tax return	The dependent can claim the credit. The taxpayer cannot claim the credit based on the dependent's expenses.

Who Cannot Claim the Credit?

- Married filing separate filing status
- Taxpayers listed as a dependent on another person's tax return
- Taxpayers whose modified AGI is more than the allowable income limits
- Taxpayer (or the spouse) was a nonresident alien for any part of the tax year and the nonresident alien did not elect to be treated as a resident alien for tax purposes

What Expenses Qualify?

- Expenses paid for an academic period starting in 2011 or the first 3 months of 2012
- Expenses not refunded when the student withdraws from class
- Expenses paid with the proceeds from a loan

What are Qualifying Expenses?

- The term "qualified tuition and related expenses" has only been expanded for the American opportunity credit to include expenditures for course materials. For this purpose, course materials are books, supplies, and equipment needed for a course of study whether or not the materials are purchased from the educational institution as a condition of enrollment or attendance. However, whether an expenditure for a computer qualifies for the credit depends on the facts. An expenditure for a computer would qualify for the credit if the computer is needed as a condition of enrollment or attendance at the educational institution.

What is Tax-free educational assistance?

- Tax-free parts of scholarships and fellowships
- Pell grants (see chapter 1 of Publication 970)
- Employer-provided educational assistance (see Publication 970)
- Veterans' educational assistance
- Any other nontaxable payment (other than gifts or inheritances) received as educational assistance

Note: If qualified education expenses are paid with certain tax free funds, the taxpayer cannot claim a credit for those amounts. The taxpayer must reduce the qualified education expenses by the amount of any tax-free educational assistance received.